Supreme Court, U.S.
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No. 10-

In the Supreme Court of the United States

AVID IDENTIFICATION SYSTEMS, INC.,
Petitioner,

v.

THE CRYSTAL IMPORT CORPORATION,
DATAMARS SA AND DATAMARS, INC.,
Respondent.

Petition for a Writ of Certiorari to the
United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

This appeal involves the doctrine of fraud on the Patent Office. This Court has held that patents procured by fraud are unenforceable. However, this Court has long limited the class of people who may be accused of such fraud to inventors, attorneys communicating with the Patent Office, or others who submit evidence or argument to the Patent Office urging it to issue the patent. This limit makes sense because those are the people who know enough to understand the invention and what needs to be disclosed to the Patent Office about the invention.

The Federal Circuit, in this case, vastly expanded that judicially-created doctrine by rendering a patent unenforceable based on the inaction of someone who was not an inventor, attorney, or person that submitted any evidence or argument to the Patent Office related to patentability. The omitted information would have had no bearing on the Patent Office's decision, as a jury later found that very information did not render the patent invalid.

The questions presented are as follows:

(1) Whether a patent may be rendered unenforceable based solely on the failure to disclose prior art by an individual who was not involved in the preparation or submission of any evidence or argument to the Patent Office to convince it to issue the patent.

(2) Whether a patent made be rendered unenforceable due to the failure to disclose a prior art reference that does not render the patent invalid or otherwise contradict the applicant's statements to the Patent Office.

RULES 14.1(b) AND 29.6 STATEMENT

All parties are identified in the caption of this petition. Petitioner Avid Identification Systems, Inc. has no parent corporation, and no publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i
RULES 14.1(b) AND 29.6 STATEMENT ii
TABLE OF AUTHORITIES v
OPINIONS BELOW 1
JURISDICTION 1
CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED 1
INTRODUCTION 2
STATEMENT OF THE CASE 4
A. Proceedings in the District Court 4
B. Proceedings at the Federal Circuit 7
REASONS FOR GRANTING THE PETITION 10
I. The Federal Circuit's Decision Is In Tension With This Court's Precedent, the Patent Office's Rules, and the Patent Statute. 11
A. This Court's Prior Cases Created a Far Narrower Defense Than the Defense Now Endorsed by the Federal Circuit. 11
B. The Federal Circuit's Decision Conflicts with the Patent Office Rule That Defines an Applicant's Duty of Disclosure. 14
C. The Federal Circuit's Decision Conflicts with the Patent Act, Which Codified This Court's Precedent 19
II. The Federal Circuit's Expansion of this Court's Precedent Has Created Negative Consequences That Continue to Worsen. 20

TABLE OF CONTENTS—continued

Page

III. This Case Is the Ideal Vehicle to Resolve the Questions Presented. 30

IV. At a Minimum, This Court Should GVR the Case To Be Considered Again by the Federal Circuit After It Decides *Therasense*. 32

CONCLUSION 34

APPENDIX A: Opinion of the United States Court of Appeals for the Federal Circuit (April 27, 2010) 1a

APPENDIX B: Order denying plaintiff-appellants' petition for panel rehearing and rehearing en banc (July 16, 2010) 30a

APPENDIX C: Memorandum Opinion and Order granting defendants' motion [Doc 377] to hold the '326 patent unenforceable due to inequitable conduct (E.D. TX Sept. 28, 2007) 38a

APPENDIX D: Memorandum Opinion and Order denying plaintiff's motion to reconsider inequitable conduct finding [Doc 457] (E.D. TX Feb. 11, 2009) 49a

APPENDIX E: Relevant Statutory and Regulatory Provisions 55a

TABLE OF AUTHORITIES

Page(s)

CASES

Advanced Magnetic Closures, Inc. v. Jaroslawicz, 607 F.3d 817 (Fed. Cir. 2010) 33

Allflex USA, Inc. v. Avid Identification Sys., Inc., No. 5:06-cv-01109-MRP-OP 6, 7

Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc., 525 F.3d 1334 (Fed. Cir. 2008) 27

Bilski v. Kappos, 130 S. Ct. 3218 (2010) 3, 31

Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370 (Fed. Cir. 2001) 30

Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418 (Fed. Cir. 1988) 29

Burns v. Reed, 500 U.S. 478 (1991) 26

Davis v. Michigan Dep't of Treasury, 489 U.S. 803 (1989) 19

Digital Control, Inc. v. Charles Mach. Works, 437 F.3d 1309 (Fed. Cir. 2006) 18

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006) 3

Ferring B.V. v. Barr Labs., Inc.,
437 F.3d 1181 (Fed. Cir. 2006) 26, 28

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 US 722 (2002) 3

Global-Tech Appliances, Inc. v. SEB S.A., No. 10-6, *cert. granted* Oct. 12, 2010 31

Grupo Mexicano v. Alliance Bond Fund,
527 U.S. 308 (1999) 20

Hazel-Atlas Glass Co. v. Hartford-Empire Co.,
322 U.S. 238 (1944) 11, 12, 13

Herring v. United States,
129 S. Ct. 695 (2009) 30

JP Stevens & Co., Inc. v. Lex Tex Ltd., Inc.,
747 F.2d 1553 (Fed. Cir. 1984) 19

Keystone Driller Co. v. General Excavator Co.,
290 U.S. 240 (1933) 11, 12, 13

KSR Int'l Co. v. Teleflex Inc.,
550 U.S. 398 (2007) 3

Larson Mfg. Co. v. Aluminart Prods.,
559 F.3d 1317 (Fed. Cir. 2009) 2

Lawrence v. Chater,
516 U.S. 163 (1996) 33

Lee v. United States,
__ S. Ct. __, 2010 WL 595570, No. 09-9085
(Oct. 4, 2010) 32

Merck KGaA v. Integra Lifesciences I, Ltd.,
545 U.S. 193 (2005) 31

Metropolitan Life Ins. Co. v. Hawkins-Dean,
549 U.S. 1048 (2006) 32

Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.,
324 U.S. 806 (1945) 11, 12, 13

Quanta Comp., Inc. v. LG Elecs., Inc.,
553 U.S. 617 (2008) 3, 31

Taltech Ltd. v. Esquel Enterprises Ltd.,
604 F.3d 1324 (Fed. Cir. 2010) 28

Therasense, Inc. v. Becton, Dickinson, & Co.,
2010 WL 1655391 (Fed. Cir.) ..... *passim*

United States v. American Bell Telephone Co.,
128 U.S. 315 (1888) 11, 12, 13

Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520 US 17 (1997) 3

STATUTES AND REGULATIONS

28 U.S.C. § 1254 1

28 U.S.C. § 1295 31

35 U.S.C. § 2 15

35 U.S.C. § 115 12

35 U.S.C. § 282 ..... 1, 2, 19

Patent Act of 1870, Ch. 230, 16 Stat. 198-217 12

37 C.F.R. § 1.56 ..... 1, 9, 10, 14, 15, 17

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H.R. Rep. No. 110-314 (2007) 25

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54 FED. REG. 11334 (1989) 19

155 CONG. REC. S2,715 (Mar. 3, 2009) 21

PETITION FOR A WRIT OF CERTIORARI

Avid Identification Systems, Inc. respectfully petitions for a writ of *certiorari* to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-29a) is reported at 603 F.3d 967 (Fed. Cir. 2010). The opinion of the court of appeals denying Avid's petition for rehearing, rehearing *en banc*, and motion for a stay of the mandate (App. 30a-37a) is reported at 614 F.3d 1330 (Fed. Cir. 2010). The district court's opinions (App. 38a-48a & 49a-54a) are reported at 2007 WL 2901415 (E.D. Tex. Sept. 28, 2007) and 2009 WL 383232 (E.D. Tex. Feb. 11, 2009).

JURISDICTION

The court of appeals entered its judgment on April 27, 2010 and denied panel rehearing and rehearing *en banc* on July 16, 2010. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED

The relevant statute, 35 U.S.C. § 282 sets forth the defenses to patent infringement. The applicable regulation, 37 C.F.R. § 1.56 defines the Patent's Office's policy regarding the individuals who must submit information to the Office and the types of information they must submit. The text of these provisions is set forth verbatim in Appendix E, *infra*, 55a-59a, pursuant to Supreme Court Rules 14(1)(f) & 14(1)(i)(v).

INTRODUCTION

This Court issued a series of decisions decades ago that refused to enforce a patent when individuals used fraud to convince the Patent Office to issue the patent or a court to preserve its validity. In each case, either the inventor, the inventor's attorney, or a witness collaborating with the inventor or attorney, submitted false evidence intended to show the alleged invention was patentable or argued the invention was patentable without disclosing information that he knew contradicted that argument. In each case, the fraud either led to the issuance or preservation of a patent that would have otherwise been deemed invalid, or was exceedingly likely to have done so because it directly contradicted the patent holder's other representations. This "inequitable conduct" defense was codified by the 1952 Patent Act as an "unenforceability" defense in 35 U.S.C. § 282.

The Federal Circuit has since expanded the doctrine in a manner that "has significantly diverged from the Supreme Court's treatment of inequitable conduct." *Larson Mfg. Co. v. Aluminart Prods.*, 559 F.3d 1317, 1342 (Fed. Cir. 2009) (Linn, J., concurring). The Federal Circuit's holding in this case features two examples of that expansion. First, it rendered the patent-in-suit unenforceable based solely on the inaction of someone who was not an inventor, not an attorney, and not involved in convincing the Patent Office to issue the patent. Second, the inaction was the non-disclosure of information that would not have changed the Patent Office's decision to issue the patent and did not contradict any representation made to the Patent Office. The facts here are thus a far cry from the cases of actual fraud in which this Court has previously applied the doctrine.

The negative consequences from expanding the narrow doctrine of "fraud on the Patent Office" into the nebulous defense of "inequitable conduct" are well-recognized by the Patent Office, several Federal Circuit judges, members of Congress, scholars, numerous bar associations, and many technology companies. Patent applicants now overload the Patent Office with tangentially relevant information without explaining its significance, for fear of being accused later of having wrongfully withheld or misrepresented something. The result is longer application processing times and the issuance of bad patents. Patent litigation has become more costly, complex, uncertain, and protracted because the inequitable conduct defense is now asserted in almost every case, leading to additional discovery, motion practice, and trial time. Reputable scientists and lawyers are routinely attacked with little or no justification.

This Court should return the scope of the defense to that set out in its prior cases. The Court has intervened in several recent patent cases in which the Federal Circuit has departed from the principles in this Court's prior decisions. See *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Quanta Comp., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 US 722 (2002); *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 US 17 (1997). This case warrants similar intervention, especially given the negative consequences sure to follow from letting the Federal Circuit's decision stand, and the fact that the defense is judicially-created and has only been approved by Congress for use in extreme circumstances like those in this Court's prior decisions—not those here.

STATEMENT OF THE CASE

A. Proceedings in the District Court

Avid filed this suit to enforce its U.S. Patent No. 5,235,326 and pursue various other federal and state tort claims against the respondents. The '326 patent covers a radio frequency identification (RFID) system that includes an RFID tag and reader. One use of the system is to enable animal shelters to reunite a lost pet with its owner by using the RFID reader to retrieve the owner's contact information using an RFID tag previously implanted into the pet.

A jury found the respondents willfully infringed the patent and returned a general verdict that the patent was not invalid. (App. 40a; C.A. App. A27-32.) The jury's general verdict of no invalidity meant that it necessarily rejected respondents' argument at trial that sales and demonstrations of Avid's alleged prior art products—the e5500B integrated circuit and the Standard Reader—invalidate the '326 patent. (App. 40a.)

Nevertheless, after trial, the district court declared the '326 patent unenforceable because Avid's President, veterinarian Hannis Stoddard, did not disclose prior sales and demonstrations of those products to the Patent Office. (App. 38a-48a.) Dr. Stoddard was neither an inventor of the '326 patent nor the attorney who interacted with the Patent Office about the application. (C.A. App. A1394; A1403; A1419; A1424; A14733-A14734, ¶ 6.) There was no evidence that Dr. Stoddard reviewed a draft of the '326 patent application or drafts of any documents submitted to the Patent Office arguing the '326 patent should be issued. The prosecuting attorney that did communicate with the Patent Office, Robert

Malm, testified without contradiction that he had no conversations regarding "patent prosecution" with Dr. Stoddard. (*Id.* at A16650, ¶¶ 6-8.) ("Patent prosecution" is the term patent lawyers use to describe pursuing a patent application at the Patent Office.)

Indeed, during the period leading up to the filing of the patent application, Dr. Stoddard was a full-time veterinarian whose principal endeavor was running an animal hospital; Avid was a small, part-time project. (C.A. App. A16645-46, ¶¶ 3-4.) As a veterinarian, he recognized the need for a system to permit the return of a lost pet to its owner but lacked the technical knowledge needed to invent and build the complex RFID system of the '326 patent. (*Id.* at A1394.) He had no training in general engineering or electronics and had to hire the inventors, who were engineers, to develop the patented system. (*Id.* at A16646, ¶7; A1394.)

Despite these facts, the district court found that Dr. Stoddard was "substantively involved" in the '326 patent application process and thus had a duty to disclose to the Patent Office prior art that might be important to the application. (App. 47a.) The district court reached this conclusion based on its findings that (1) Dr. Stoddard co-founded Avid and was generally involved in "all aspects" of its operation, including marketing, sales, and research and development, (2) he received a memo that suggested checking with a patent attorney to determine whether Avid's sales of its prior products before filing a European patent application could affect its chances of obtaining a European patent, and (3) he was copied on a memo about a European patent application related to the '326 patent. (*Id.*) The district court did

not cite any evidence showing that Dr. Stoddard was involved in formulating—or even knew about—Avid's arguments to the U.S. Patent Office urging it to issue the '326 patent.

The district court also found Avid's prior products should have been disclosed to the Patent Office because they were the "closest prior art" to the '326 patent and would have thus been considered "important" to a reasonable examiner. (App. 45a.) The district court never found the prior art would have changed the Patent Office's decision to issue the patent or that it contradicted any of the arguments made for patentability to the Patent Office. It nonetheless concluded that they were "material" simply because it thought they were better than what the Patent Office already had.

After the district court's decision, Avid and the respondents entered into a settlement agreement resolving most issues in the case. (App. 5a.) But the agreement reserved Avid's right to challenge the inequitable conduct ruling on appeal, permitted Datamars to contest the appeal, and required respondents to pay Avid approximately $27,000 if its appeal was successful. (App. 7a-8a.) Datamars did not file an opposition brief at the Federal Circuit. But Allflex USA, Inc., a company involved in a separate lawsuit involving the '326 patent, filed *amicus* briefs in the district court and at the Federal Circuit supporting the inequitable conduct finding. (App. 7a, 49a-50a.) Allflex has a strong interest in affirmance because the district court in its case dismissed Avid's infringement claim against Allflex on the '326 patent based on the collateral estoppel effect of the judgment here. *Allflex USA, Inc. v. Avid Identification Sys., Inc.*, No. 5:06-cv-01109-MRP-OP, Dkt. No. 120

(C.D. Cal. Feb. 29, 2008). Allflex is also pursuing antitrust claims against Avid in that case based in part on the judgment of inequitable conduct here. *Id.* at Dkt. No. 190.

B. Proceedings at the Federal Circuit

A divided panel of the Federal Circuit affirmed. All three judges found they had Article III jurisdiction to reach the merits because, under the settlement agreement, the respondents could oppose the appeal, and Avid will recover the entire amount of damages for patent infringement that it requested at trial and was awarded by the jury if it succeeds. (App. 7a-8a.) The panel, relying on Federal Circuit precedent, also held that Avid's prior products were "material" because a reasonable examiner would consider them important, even though the jury found they were not invalidating. (App. 9a-10a.)

In addition, the majority affirmed the district court's finding that Dr. Stoddard's conduct could be the basis of an inequitable conduct charge because he was "substantively involved in the preparation or prosecution of the application." (App. 10a-19a.) The majority posited that "a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the [Patent Office]" are relevant to assessing substantive involvement. (App. 17a n.3.)

Applying these criteria, the majority concluded that Dr. Stoddard was substantively involved in the preparation or prosecution of the '326 patent application. The majority relied on the district court's findings discussed above, plus the fact that Dr. Stoddard submitted a small entity status affidavit to the Pa-

tent Office during the application process. (App. 13a-16a.) That affidavit simply certified that Avid had fewer than 500 employees, which therefore entitled Avid to reduced filing fees. (App. 28a; C.A. Suppl. App. 4-6.) It had nothing to do with whether the Patent Office should issue the '326 patent. (App. 28a.)

The majority also stressed that Dr. Stoddard was personally responsible for Avid's product demonstrations, without explaining why this would show he was involved in the patent application process. (App. 16a.) Finally, it expressed doubt that Dr. Stoddard was unable to assess the importance of Avid's prior products given that the district court discredited some of his testimony. (App. 15a.)

Judge Linn dissented from the majority's holding that Dr. Stoddard's actions could be the basis of an inequitable conduct defense. (App. 20a-29a.) He recognized that the real question is whether there was evidence linking Dr. Stoddard to preparation of the '326 patent application or interactions with the Patent Office about the patentability of that application. (App. 22a-23a.) As Judge Linn put it, "[s]imply having a general interest or even a financial interest in the invention or a general awareness of the application is not enough." (App. 23a.)

Starting with the proper focus, Judge Linn found it "significant that no document or testimony shows that Dr. Stoddard participated in any inventor meeting with patent counsel, received a draft of the application prior to filing, or received any draft response of an office action to the [Patent Office] during prosecution or was otherwise apprised of the technical details or legal merit of the application." (App. 26a.) He also pointed out that the Avid attorney who dealt with the Patent Office with respect to the application

testified, without contradiction, that he never discussed patent prosecution with Dr. Stoddard. (*Id.*)

Judge Linn correctly recognized that neither document cited by the district court related to the '326 patent. (App. 26a-27a.) He explained that Dr. Stoddard's general involvement in research and development, and the demonstrations of Avid's products, does not show involvement in the preparation or prosecution of the '326 patent application. (App. 27a-28a.) Finally, he dismissed the majority's reliance on the small entity affidavit because it "relates only to information about the corporation and not anything material to patentability." (App. 28a.)

Avid sought panel rehearing, rehearing *en banc*, or a stay of the mandate pending the Federal Circuit's resolution of another inequitable conduct case—*Therasense, Inc. v. Becton, Dickinson, & Co.*, 2010 WL 1655391 (Fed. Cir. Apr. 26, 2010)—which that court is currently rehearing *en banc*. These requests were denied.

Judge Newman dissented from the denial of a stay. She agreed with Judge Linn that Dr. Stoddard was not substantively involved in the preparation or prosecution of the '326 patent application. (App. 37a.) She also explained that *Therasense* will address one of the two issues in this case—how important an act or omission must be to be "material" and serve as a basis for refusing to enforce a patent. (App. 33a-36a.) Judge Newman explained that Avid's sales and demonstrations of its products are unquestionably not material under two of the potential standards, including the Patent Office's own definition of materiality in 37 C.F.R. § 1.56. (*Id.*) Because adoption of either standard would require reversal here, Judge Newman urged her colleagues to hold

the case until *Therasense* is decided, then to apply the *Therasense* standard of materiality. (*Id.*) Indeed, Judge Newman correctly pointed out that this Court routinely holds petitions for *certiorari* when another case on the same issue is before the Court on the merits. (App. 34a.)

The upshot of these opinions is that the Federal Circuit rendered a patent unenforceable because someone whose only connection to the patent application process was to sign an affidavit certifying that Avid had fewer than 500 employees did not disclose information that would not have changed the Patent Office's decision to issue the patent.

REASONS FOR GRANTING THE PETITION

The Federal Circuit's refusal to enforce Avid's valid and willfully infringed patent expands the inequitable conduct defense far beyond the principles established by this Court's precedent. It conflicts with the Patent Office's own rules governing who must disclose prior art to the Office and how important the art must be to warrant disclosure. It has no basis in the Patent Act, which codifies this Court's precedent without supplying a *carte blanche* grant of authority for the judiciary to expand the doctrine. It will increase the cost of litigating patent cases and the burden on the already overworked Patent Office.

This Court should therefore grant the petition for *certiorari* in order to limit the inequitable conduct defense to cases in which (i) the alleged wrongdoing is by someone who submitted information related to the Patent Office's decision to issue the patent or directed another to do so and (ii) if the alleged wrongdoing is failure to disclose information, the undisclosed information would have caused the Patent Of-

fice to reject the patent or have contradicted one of the patent applicant's arguments in favor of patentability. Because neither circumstance is present here, the Court should then reverse.

I. The Federal Circuit's Decision Is In Tension With This Court's Precedent, the Patent Office's Rules, and the Patent Statute.

A. This Court's Prior Cases Created a Far Narrower Defense Than the Defense Now Endorsed by the Federal Circuit.

This Court has sensibly held that inventors and patent attorneys that obtain a patent by lying to the Patent Office or a court—or use the testimony of witnesses who lie—cannot enforce that patent against others. The doctrine is a narrow one, however, and this Court has only applied it in cases of extreme fraud.

For example, *United States v. American Bell Telephone Co.*, 128 U.S. 315 (1888), denied a motion to dismiss the government's suit to a cancel a patent where it alleged the inventor was aware at the time he procured his patent that others had previously put the invention into use. Likewise, *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933), refused to enforce a patent where the inventor suppressed evidence of an invalidating prior use during prior litigation and enticed the individual responsible for that use to submit an affidavit fraudulently claiming it was an abandoned experiment. A pair of other decisions—*Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944) and *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945)—were to similar effect. *Hazel-Atlas* refused to enforce a patent where

the attorney submitted to the Patent Office a scientific article that he wrote to tout the novelty of the invention, but that he paid a seemingly neutral expert to pass off as his own. In furtherance of that scheme, the expert submitted an affidavit claiming the article was the expert's own work. Likewise, *Precision Instrument* refused to enforce a patent where the inventor and eight other witnesses submitted testimony to the Patent Office falsely claiming an invention date earlier than that of a competing patent application.

Two general principles emerge from these cases. First, each case involved misconduct by individuals who submitted evidence or argument about whether an invention was patentable and committed fraud related to that submission. The inventors in *American Bell*, *Keystone*, and *Precision Instrument* all signed oaths asserting that they believed they were the original and first inventor of the subject matter claimed by their patents, as they were required to do by the patent statute. See Patent Act of 1870, Ch. 230, 16 Stat. 198-217 at § 30 (July 8, 1870); *accord* 35 U.S.C. § 115 (2010) (current version). Yet each inventor knew or allegedly knew of prior art that rendered that oath false. Likewise, the patent attorney in *Hazel-Atlas* fabricated evidence and used it to convince the Patent Office to change its mind and issue his client a patent. And the witnesses in *Keystone Driller*, *Hazel-Atlas*, and *Precision Instrument* submitted affidavits with a false date of invention, false praise for the purported invention, or false testimony to show a prior use was not invalidating. None of these cases relied on solely the actions of an individual who did not make any representations or submissions related to the propriety of issuing the patent in question.

Second, each case involved a misrepresentation that caused the adjudicator to find the invention patentable where it otherwise would not have. *Accord* Hon. Randall R. Rader, *Always at the Margin: Inequitable Conduct in Flux*, 59 AM. U. L. REV. 771, 781 (2010) (explaining that in this Court's cases "[t]he perpetrator of the fraud would not have received, or been able to enforce, the patent without the egregious conduct"). The alleged misrepresentation in *American Bell* caused the Patent Office to issue a patent that it later sought to revoke upon learning of the evidence of prior use by others. 128 U.S. at 350. The fabricated article and affidavit in *Hazel-Atlas* convinced the Patent Office to issue a patent for an application that it had repeatedly rejected before receiving them. 322 U.S. at 240-41, 246-47. The false affidavits in *Precision Instrument* caused the Patent Office to award a patent to the wrong set of inventors competing for priority of invention. 324 U.S. at 809-10, 812, 818. And the suppression in evidence in *Keystone* caused the first court to issue a decree finding the patents valid. 290 U.S. at 242-43, 246.

Neither circumstance is present in this case. The only individual accused of misconduct is Dr. Stoddard, who was not an inventor, not a patent attorney responsible for the application, and not a witness that submitted evidence or argument to establish patentability. The uncontested evidence is that he never communicated with the Patent Office about patentability. He never instructed anyone who did communicate with the Patent Office to withhold information. There is no evidence he communicated with anyone about the '326 patent application. Nothing suggests he knew enough about the content of the '326 application, or the specific technology it covered, to determine whether he was aware of infor-

mation that should be disclosed to the Patent Office. After all, he was a veterinarian—not an electrical engineer who was versed in the intricacies of RFID technology. His only involvement with the '326 patent application was to submit an affidavit certifying that Avid has fewer than 500 employees. This affidavit had no impact on the Patent Office's decision to issue the patent, and there is no suggestion it contained any misrepresentations.

What is more, the undisclosed information about Avid's prior products would not have changed the Patent Office's decision to issue the patent. This is evident from the jury's rejection of respondents' invalidity argument based on the same products at trial, which was never challenged on post-verdict motions or appeal. None of the decisions below even considered this issue, much less suggest otherwise. Likewise, none of the decisions below suggest that the existence or features of the products contradict a specific argument that Avid's inventors or attorneys made to the Patent Office.

Thus, the Federal Circuit's decision represents a marked and imprudent expansion of the limited unenforceability defense recognized by this Court's precedent, an expansion this Court should correct.

B. The Federal Circuit's Decision Conflicts with the Patent Office Rule That Defines an Applicant's Duty of Disclosure.

The Patent Office has a rule that tells practitioners before the Office who has a duty to disclose information about a pending patent application and what information they must disclose. See 37 C.F.R. § 1.56. The Rule is consistent with this Court's cases. See Brief of the United States as *Amicus Curiae*

in *Therasense* at 3. The Rule provides useful guidance regarding the proper scope of the inequitable conduct defense. After all, the Patent Office "is in the best position to know what information is essential to determining patentability of a claimed invention," *id.*, and it is authorized by statute to establish regulations governing procedure before it. 35 U.S.C. § 2(b)(2)(A). Moreover, a party cannot be said to have committed fraud if it disclosed to the Patent Office exactly what the Office said it wanted. The Federal Circuit's decision here conflicts with the Rule, which shows how unwise its approach is and further demonstrates how that Court has strayed from Supreme Court precedent.

The Patent Office's Rule 56 imposes a duty to disclose on limited categories of individuals, namely:

- "each inventor named in the application,"
- "each attorney or agent who prepares or prosecutes the application," and
- "[e]very other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application."

37 C.F.R. § 1.56(c).

Each person in this Court's precedents whose actions led to a finding of unenforceability fits into these categories. Most were inventors or prosecuting attorneys. The others were witnesses who were "substantively involved" in the "prosecution of the application" because they submitted information that bore directly on the decision of patentability. They were

experts who submitted declarations and articles about the prior art, or fact witnesses who submitted testimony about the date of invention or potential prior art.

Dr. Stoddard is not like any of these individuals. He was not an inventor or prosecuting attorney. There is no evidence that he had any involvement—much less substantive involvement—in preparing the '326 patent application or helping to craft any argument Avid's attorney subsequently made to the Patent Office urging it to issue the patent. There is no evidence he knew enough about the application or the underlying technology to even determine what information might be important to the Patent Office. As Judge Linn pointed out in dissent below, neither Dr. Stoddard's position at the company nor his being copied on two communications about European patents have anything to do with the application here. (App. 26a-27a.) The affidavit he signed certifying Avid had fewer than 500 employees also had no bearing on patentability. (App. 28a.)

The Federal Circuit panel majority took a much broader view of the Patent Office's Rule. It claimed that an individual could be "substantively involved" in the patent application process based on "a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the [Patent Office]." (App. 17a n.3.) Nothing in the Patent Office's rule (or this Court's cases) suggests that such a free-wheeling, expansive inquiry is appropriate.

Indeed, the first two factors are irrelevant to whether someone was involved in the prosecution of a patent application, as opposed to a company's gen-

eral research and development or management activities. The third is only relevant if the contact with the inventors or prosecutors was about the technical aspects of the patent application. Here, no evidence shows Dr. Stoddard had contact with the inventors or prosecutor about the application. Quite the contrary: the prosecuting attorney testified, without contradiction, that he never discussed patent prosecution matters with Dr. Stoddard. (C.A. App. (A14100, A14104; A16650, ¶¶ 6-8.) Finally, regarding the fourth factor, Dr. Stoddard made no representations to the Patent Office about patentability.

Rule 56 also explains that those limited categories of individuals must only disclose "material" information. "There is no duty to submit information which is not material to the patentability of any existing claim." 37 C.F.R. § 1.56(a). Information is "material" if it either:

- "establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim;" or
- "refutes, or is inconsistent with, a position the applicant takes in: (i) Opposing an argument of unpatentability relied on by the Office, or (ii) Asserting an argument of patentability,"

and is not "cumulative" to information already of record. 37 C.F.R. § 1.56(b).

The Rule's approach to "materiality" is in accord with the approach in this Court's precedent. Not all potentially relevant information must be disclosed to the Patent Office. Instead, the Rule only requires disclosure of information that would cause the Patent Office to initially refuse to grant a patent, or be

exceedingly likely to do so because it contradicts the applicant's other representations about patentability.

None of the courts below suggested that Avid's prior products would be "material" under the Patent Office's standard. Indeed, the only Judge to address the issue below was Judge Newman, and she concluded that "[t]he information here criticized does not appear to violate the current Rule 56 standard." (App. 37a.)

Instead, the lower courts, citing Federal Circuit precedent, found Avid's prior products were material because "a reasonable examiner" would have found them "important" when assessing patentability because they were the "closest prior art" to the '326 patent. (App. 9a-10a, 45a.) But that does not mean that it should have been disclosed under either this Court's precedent or the Patent Office's Rule. (App. 36a-37a (Newman, J., dissenting).) Nothing suggests those products would have changed the Patent Office's decision or even given it pause before issuing the '326 patent. Indeed, for a ground-breaking invention, a piece of prior art could be the "closest" yet still be miles away from the invention.

The Federal Circuit has refused to adopt the Patent Office's Rule 56 standard in lieu of the "reasonable examiner" standard. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1315-16 (Fed. Cir. 2006). That refusal is ironic because the "reasonable examiner" standard was borrowed from the 1977 version of Rule 56's definition for "materiality." *Id.* The Patent Office amended Rule 56 in 1992 to jettison the "reasonable examiner" and adopt the current definition for "materiality" quoted previously. It did so because the "reasonable examiner" standard forced applicants and the Office to devote

unnecessary "resources . . . to duty of disclosure issues . . . without significantly contributing to the reliability of the patents being issued." 54 Fed. Reg. 11334 (1989). Given that the Federal Circuit has refused to follow the Patent Office's lead (and this Court's example), this Court should intervene.

C. The Federal Circuit's Decision Conflicts with the Patent Act, Which Codified This Court's Precedent.

The 1952 Patent Act codified the defenses to a patent infringement claim in 35 U.S.C. § 282. If there is statutory support for the inequitable conduct defense, it is found in the reference to an "unenforceability" defense in § 282(1). See *JP Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1561-62 (Fed. Cir. 1984). One of the authors of the Act explained that "unenforceability" was a reference to "equitable defenses such as laches, estoppel and unclean hands," and the pre-1952 cases from this Court discussed above treated inequitable conduct as a form of unclean hands. *Id.* at 1561. Thus, the Federal Circuit has found statutory support for the defense in that section. *Id.*

Because § 282 has codified all the defenses to patent infringement, the courts' task is to apply the statutory text faithfully, not to create new defenses. Here, the text is best understood to codify the scope of the defense recognized by this Court's then-existing caselaw. See, e.g., *Davis v. Michigan Dep't of Treasury*, 489 U.S. 803, 831 (1989) ("When Congress codifies a judicially defined concept, it is presumed, absent an express statement to the contrary, that Congress intended to adopt the interpretation placed on that concept by the courts."). Thus, courts must apply § 282 by applying—but not expanding

upon—this Court's precedent. *Grupo Mexicano v. Alliance Bond Fund*, 527 U.S. 308, 329 (1999) ("[O]ur traditionally cautious approach to equitable powers . . . leaves any substantial expansion of past practice to Congress.") In particular, inequitable conduct should remain "only as a remedy for truly abusive behavior," as it was in this Court's cases—not expanded to further some "universal principle to encourage a patent owner to disclose (excessive amounts of) prior art." Rader, 59 AM. U. L. REV. at 781.

The Federal Circuit's inequitable conduct jurisprudence stopped citing § 282 or considering whether its treatment of the defense comported with the statute long ago. That makes this Court's intervention all the more imperative. The expansion of the inequitable conduct defense is not just a case of overreading judicial precedent, but of transgressing the limited authority Congress has granted courts to refuse to enforce otherwise valid and infringed patents.

II. The Federal Circuit's Expansion of this Court's Precedent Has Created Negative Consequences That Continue to Worsen.

The Court's intervention is not only necessary to bring the inequitable conduct defense in line with its precedent, the Patent Office's views, and statute, but to eliminate multiple negative consequences that have resulted from the Federal Circuit's expansion of the doctrine, consequences that will only worsen if the decision here is left intact.

First, expansion of the inequitable conduct defense has increased the costs of patent litigation, while distracting from the real issues of infringement and validity. Senator Hatch, one of the lead archi-

tects of the pending Patent Reform legislation, the American Bar Association, and two Directors of the Patent Office have decried this development:

- "The inequitable conduct defense is frequently pled, rarely proven, and always drives up the cost of litigation tremendously. Under current law, any perceived transgression of the patent owner is being painted as 'fraud.' . . . This is why inequitable-conduct challenges are raised in nearly every patent case." 155 CONG REC. S2,715 (Mar. 3, 2009) (statement of Sen. Hatch).
- "Allegations of inequitable conduct often are based on speculation or harmless mistake and, in most cases, are unsuccessful. Nevertheless, the defense adds substantially to the complexity and cost of litigation. It leads to relentless discovery in hopes of finding supportive evidence. . . . Accused infringers' aggressive discovery demands lead in turn to resistance to those demands by the patentee, with the attendant discovery disputes and motion practice. All of this results in increasing the complexity, duration and cost of patent infringement litigation that is already notorious for its complexity and high cost." American Bar Ass'n Report with Recommendation #107B (adopted Aug. 2009), *available at* http://www.abanet.org/leadership/2009/annual/summary_of_recommendations/One_Hundred_Seven_B.doc (last visited Oct. 11, 2010).
- "While the risk of an inequitable conduct finding is low, it is frequently alleged. When alleged, inequitable conduct assertions add

substantially to litigation costs and malpractice claims." *Patent Reform: The Future of American Innovation, Hearing Before the Senate Judiciary Committee*, 110 Cong. (June 6, 2007) (statement of Jon W. Dudas, Former Director of the U.S. Patent & Trademark Office), *available at* http://judiciary.senate.gov/hearings/testimony.cfm?id=2803&wit_id=6506.

- "Inequitable conduct allegations have been called a plague on the patent system. They're expensive, discovery-heavy, and most importantly, they usually don't get to the heart of patentability. In fact, they become a high priced side show to the real issues. In some cases, they come down to the last refuge of the blatant infringer." David Kappos, Director of the U.S. Patent and Trademark Office, *Remarks at George Washington Law Symposium* (May 11, 2010), *available at* http://www.uspto.gov/news/speeches/2010/Kappos_GW_Law_Symposium.jsp.

Statistical studies are in accord with these remarks. The defense may be raised in as many as 80% of all patent cases. See Brief of the United States as *Amicus Curiae* in *Therasense* at 2. Even some of the more conservative estimates show the defense was pled ten times as frequently in 2008 as it was in 2000. See Christian Mammen, *Controlling the "Plague": Reforming the Doctrine of Inequitable Conduct*, 24 Berkeley Tech. L.J. 1329, 1358-60 (2009).

The Federal Circuit's decision here will severely exacerbate these problems because it opens up many new classes of people to attack. Until this case, in-

equitable conduct allegations focused primarily on inventors and prosecuting attorneys. Now, defendants will be able to attack almost any scientist in a company's R&D division who was acquainted with the inventors. They will be able to attack marketing personnel responsible for products in the field of invention. They will be able to attack senior managers who have a general interest in seeing their company obtain patents or have some involvement in hiring inventors or in suggesting research in the field related to the patent.

These individuals will have no involvement with any particular patent application or knowledge of the technical details of a patent application. But they may be generally aware of prior art, even if they do not realize its significance. As Judge Linn stated in dissent, "[t]he majority's interpretation places on persons who are not in a position to assess materiality an obligation to disclose information the relevance of which they have no way of determining." (App. 25a.) Under the Federal Circuit's multi-factor test, these peripheral persons will now become targets of the "blatant infringer." The Federal Circuit's decision will also continue to permit inequitable conduct allegations to go forward where the alleged wrongdoing was harmless and would not have changed the Patent Office's decision.

Second, expansion of the inequitable conduct defense, and the resulting uncertainty about what conduct might result in unenforceability, have increased the burden on the Patent Office. The problem is twofold: (1) Applicants disclose too much prior art, most of it tangentially relevant but (2) are afraid to explain the significance of any of it for fear of being accused of misrepresenting something:

- "The 'all or nothing' result of an inequitable conduct finding understandably has a perverse effect on the actions of applicants and their attorneys with respect to 'risking' a proper [prior art] search in the first place. As a result, the doctrine results in counterproductive behavior before the USPTO. It discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit. In a review two years ago, we found that over 50% of submitted applications contained either no information disclosure statement or that such submissions included more than 20 references." *Patent Reform: The Future of American Innovation, Hearing Before the Senate Judiciary Committee*, 110 Cong. (June 6, 2007) (statement of Jon W. Dudas, Director of the U.S. Patent and Trademark Office), http://judiciary.senate.gov/hearings/testimony.cfm?id=2803&wit_id=6506.

- "Applicants disclose too much prior art for the PTO to meaningfully consider, and do not explain its significance, all out of fear that to do otherwise risks a claim of inequitable conduct." ABA Section of Intellectual Property Law, *A Section White Paper: Agenda for 21st Century Patent Reform* 2 (2009), *available at* http://www.abanet.org/intelprop/home/PatentReformWP.pdf.

- "[T]o fulfill their disclosure requirement and avoid a later charge of inequitable conduct, [applicants] send the office all the prior art references they are aware of, including those

that are only 'vaguely relevant.'" H.R. Rep. No. 110-314, at 42 (2007).

- "Because applicants are unclear what information to submit to the PTO, they all too often file mounds of information with questionable materiality. *See, e.g.*, U.S. Patent No. 7,651,688 (900 references submitted by the applicant . . . without any indication which ones or parts of the references were most relevant). The agency has seen an increasing trend of applicants 'dumping' references on patent examiners in just the past five years." Brief of the United States as *Amicus Curiae* in *Therasense* at 17.

This information overload leads to examiners—who, on average, have only 20 hours total to review the application, conduct a prior art search, review materials submitted by the applicant, and issue a decision rejecting or granting the patent—who cannot realistically review all the information submitted to them. See National Research Council for the National Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 147 (2004). This impairs the patent examiner's ability find and analyze the truly important prior art, and it may even prevent the examiner from processing any of the highly technical information that is disclosed. See Christoper A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 Berkeley Tech. L.J. 723, 770-72 (2009). This ultimately leads to the issuance of invalid patents, as examiners are forced to push applications through the process to get them off their dockets. Yet it also threatens quality patents with the prospect of unenforceability due to a minor misstep.

The Federal Circuit's decision here will only add to these problems. It expands the universe of individuals who can be accused of inequitable conduct in a way that makes it difficult for prosecuting attorneys to determine from whom they should collect information. This will force prosecuting attorneys to collect prior art from people who are only tangentially acquainted with the inventors. The result? A new flood of marginally relevant submissions to the Patent Office.

Likewise, by maintaining a lax and vague standard for materiality, the Federal Circuit has discarded the advice of the United States, which has encouraged adoption of a stricter standard because patent applicants "all too often file mounds of information with questionable materiality." Brief of the United States as *Amicus Curiae* in *Therasense* at 17. "This flood of information strains the agency's examining resources and directly contributes to the backlog" of pending patent applications. *Id.* at 17-18.

Third, expansion of the inequitable conduct defense encourages attacks on reputable scientists, attorneys, and others who participate in Patent Office proceedings. There is no remedy for defamatory allegations about a person's character made during litigation if they are related to the case, even if they turn out to be blatantly false. *Burns v. Reed*, 500 U.S. 478, 491 (1991). This feeds a "culture of attack on inventor rights and attorney reputations based on inference and innuendo." *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1195 (Fed. Cir. 2006) (Newman, J., dissenting). Fear of such attacks could well deter people from seeking to patent their inventions, depriving society of the benefit of the disclosure of their ideas. What is more, many attorneys who are found

guilty of inequitable conduct resign their practices, lose their jobs, or lose clients. See Edwin S. Flores & Sanford E. Warren, Jr., *Inequitable Conduct, Fraud, and Your License to Practice Before the United States Patent and Trademark Office*, 8 TEX. INTELL. PROP. L.J. 29, 321-29 (2000). Given these stakes, it is imperative to limit inequitable conduct findings to truly egregious cases.

The Federal Circuit's expansive inequitable conduct doctrine is especially unwarranted in view of these consequences. Indeed, inequitable conduct has "no counterpart[] in the major patent systems of Europe, Japan and elsewhere." Donald S. Chisum, *Best Mode Concealment and Inequitable Conduct in Patent Procurement: A Nutshell, A Review of Review of Recent Federal Circuit Cases and a Plea for Modest Reform*, 13 SANTA CLARA COMPUTER & HIGH TECH L.J. 277, 279 (1997). This shows that such an expansive view of the defense is unnecessary to an effective patent system that stimulates and protects innovation.

Several Federal Circuit judges have also recognized the problems the expansion of the doctrine has caused:

- "Although designed to facilitate USPTO examination, inequitable conduct has taken on a new life as a litigation tactic. The allegation of inequitable conduct opens new avenues of discovery; impugns the integrity of patentee, its counsel, and the patent itself; excludes the prosecuting attorney from trial participation (other than as a witness); and even offers the trial court a way to dispose of a case without the rigors of claim construction and other complex patent doctrines."

Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc., 525 F.3d 1334, 1349-50 (Fed. Cir. 2008) (Rader, J., dissenting).

- "This case exemplifies the ongoing pandemic of baseless inequitable conduct charges that pervade our patent system." *Taltech Ltd. v. Esquel Enterprises Ltd.*, 604 F.3d 1324, 1335 (Fed. Cir. 2010) (Gajarsa, J., dissenting).
- "As this litigation-driven [inequitable conduct defense] evolved, the law came to demand a perfection that few could attain in the complexities of patent practice. The result was not simply the elimination of fraudulently obtained patents, when such situations existed. The consequences were disproportionally pernicious, for they went far beyond punishing improper practice. The defense was grossly misused, and with inequitable conduct charged in almost every case in litigation, judges came to believe that every inventor and every patent attorney wallowed in sharp practice. . . . My colleagues on this panel have regressed to that benighted era . . . ." *Ferring*, 437 F.3d at 1195 (Newman, J., dissenting).
- "Reputable lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps. They get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity, for being fellow members of an honorable profession, that

> used to make the bar a valuable help to the courts in making a sound disposition of their cases, and to sustain the good name of the bar itself. A patent litigant should be made to feel, therefore, that an unsupported charge of 'inequitable conduct in the Patent Office' is a negative contribution to the rightful administration of justice." *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

Indeed, Judge Linn's dissent from the panel opinion in this case recognizes that the effect of the Federal Circuit's decision here will be "either to encourage the filing of information regardless of its materiality, just to be on the safe side, or to widen the net of inequitable conduct that may be cast by accused infringers after the fact in litigation." (App. 25a)

These negative consequences have led for calls by the National Academy of Science and the ABA to reform and abolish the inequitable conduct doctrine:

- "In view of its cost and limited deterrent value the committee recommends the elimination of the inequitable conduct doctrine or changes in its implementation." National Research Council for the National Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 123 (2004).
- "Under current law, the standard for what might constitute inequitable conduct is vague and indefinite in its application. . . . The Recommendation supports limiting . . . the application of the inequitable conduct defense to cases in which a fraud resulted in the PTO's issuing one or more invalid claims." Ameri-

can Bar Ass'n Report with Recommendation #107B (adopted Aug. 2009).

The Patent Office, the Intellectual Property Owners Association, bar associations, groups of patent practitioners, and over 10 other *amici* have submitted briefs in the pending *en banc Therasense* case at the Federal Circuit echoing these sentiments.

The Federal Circuit apparently believes that its expansive view of the defense is necessary to deter applicants from withholding prior art when it is a "close case, where the materiality of the information is uncertain," no matter how minimal the benefit from such disclosure. *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1386 (Fed. Cir. 2001). But this Court has recognized that it is inappropriate to impose, in the name of deterrence, draconian remedies that are disproportionate to the harm they seek to prevent. *Herring v. United States*, 129 S. Ct. 695, 700-01 (2009) ("[T]o the extent that application of the exclusionary rule could provide some incremental deterrent, that possible benefit must be weighed against its substantial costs."). That lesson is equally applicable here: whatever benefits can be attributed to the Federal Circuit's expansion of the inequitable conduct defense, they are not worth the costs.

III. This Case Is the Ideal Vehicle to Resolve the Questions Presented.

This case is a perfect example of how the Federal Circuit has contorted the narrow inequitable conduct defense established by this Court's precedent. The Federal Circuit has refused to enforce the patent here because Dr. Stoddard, whose only involvement with the '326 patent application was to sign an affi-

davit certifying his company had fewer than 500 employees, did not disclose prior products that would not have influenced the Patent Office's decision to issue the patent. In doing so, that court has expanded the inequitable conduct defense to sweep in the activities of a wide range of new individuals, even when their activities have no impact on the Patent Office's ultimate decision to issue the patent.

The Federal Circuit's decision here will have an immediate nationwide impact because that court has exclusive jurisdiction over patent appeals from the district courts. 28 U.S.C. § 1295. This Court often grants review of Federal Circuit rulings based on the importance of the issue presented to the interpretation and application of the patent laws. See, e.g., *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005); *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6, *cert. granted* Oct. 12, 2010; and cases cited at p. 3. Inequitable conduct issues arise more frequently than many of the other patent-related issues this Court has considered in recent years—for example, the application of 35 U.S.C. § 101 (*Bilski*), the scope of patent exhaustion (*Quanta*), the safe-harbor provision of § 271(e) (*Merck*), and inducement (*Global-Tech*). So they are at least as worthy of review by this Court.

The issues presented will not benefit from further percolation in the Federal Circuit. It is true that the Federal Circuit is currently considering a number of questions related to inequitable conduct *en banc* in the *Therasense* case. See 2010 WL 1655391 (order listing questions for *en banc* review). But the first question presented by this case—what individuals' actions may give rise to a charge of inequitable conduct—is not at issue in *Therasense*.

And although the appropriate standard for materiality is at issue in *Therasense*, it seems apparent that the Federal Circuit intends to retain the "reasonable examiner" standard for materiality rather than raising it to a level consistent with this Court's precedent and the Patent Office's Rule 56 because it refused to stay this case pending *Therasense*. As Judge Newman pointed out in dissent, if the Federal Circuit were to adopt a higher standard for materiality, it would change the result in this case. (App. 37a.) The Federal Circuit's decision not to hold this case pending *Therasense* suggests that the *en banc* court does not believe *Therasense* will change the result—*i.e.*, expects to adhere to its lower standard for materiality. Given the Federal Circuit's apparent unwillingness to adopt the correct standard for materiality, this Court should step in on that question too without further delay.

IV. At a Minimum, This Court Should GVR the Case To Be Considered Again by the Federal Circuit After It Decides *Therasense*.

Even if this Court prefers to await the Federal Circuit's *en banc* decision in *Therasense* before addressing inequitable conduct itself, it should grant the petition for *certiorari*, vacate the judgment, and remand with instructions for the Federal Circuit to apply the legal rules that emerge from *Therasense* to this case. This Court has GVR'd other cases in similar circumstances. See, e.g., *Lee v. United States*, __ S. Ct. __, 2010 WL 595570, No. 09-9085, (Oct. 4, 2010) (GVR'ing a 7th Circuit case for further consideration of an intervening 7th Circuit *en banc* decision); *Metropolitan Life Ins. Co. v. Hawkins-Dean*, 549 U.S. 1048 (2006) (GVR'ing a 9th Circuit case for

further consideration of an intervening 9th Circuit *en banc* decision). It should do the same here.

The Federal Circuit had no basis for issuing a decision in this case while *Therasense* is still pending. The Federal Circuit granted rehearing *en banc* in *Therasense* before the panel issued its opinion in this case. As Judge Newman pointed out in her dissent below, the Federal Circuit should have done what this Court always does after it grants a petition for *certiorari*: it should have held cases raising similar issues that might be impacted until after the lead case was resolved. (App. 34a.) As this Court has explained, "[w]e fulfill our judicial responsibility by instructing the lower courts to apply the new rule retroactively to cases not yet final." *Lawrence v. Chater*, 516 U.S. 163, 167 (1996). Doing so alleviates the risk of unequal treatment of pending cases raising similar issues. *Id.*

Chief Judge Rader has acknowledged the Federal Circuit should normally employ the same procedure:

> In *Therasense* this court has been asked to address the transformation of inequitable conduct from the rare exceptional cases of egregious fraud that results in the grant of a patent that would not otherwise issue to a rather automatic assertion in every infringement case. The exception has become the rule. Generally, I would hold inequitable conduct cases until after this court reexamines whether to put the doctrine back into the exception category.

Advanced Magnetic Closures, Inc. v. Jaroslawicz, 607 F.3d 817, 834-35 (Fed. Cir. 2010) (Rader, C.J., concurring).

There is no good reason not to give Avid the benefit of the Federal Circuit's *Therasense* decision, especially when the panel decided this case after the *en banc* court agreed to hear another case presenting one of the exact same issues. As Judge Newman explained, "it would be grievously unjust to eradicate this patent on grounds that may soon be changed by the en banc court." (App. 34a.) The injustice is even worse than usual here because Allflex is using the inequitable conduct judgment in this case to accuse Avid of having violated the antitrust laws. Thus, at a minimum, this Court should rectify that injustice.

CONCLUSION

For the reasons above, the petition for a writ of *certiorari* should be granted. At a minimum, the Court should GVR this case with instructions for the Federal Circuit to apply the legal principles that emerge from *Therasense* to this case.

Respectfully submitted,

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